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# Message from the *Chair and President and CEO*

# AV05

**Our total investment in value-added agriculture in Alberta has reached an all-time high of \$32.9 million and has generated more than \$219 million of investment in good value-added projects.**

**W**e are pleased to present AVAC's annual report for the year April 1, 2004 to March 31, 2005. Like our previous annual reports, it captures the accomplishments and achievements of our company and our clients.

In relative terms, AVAC is a young, emerging organization. We were founded just eight years ago and currently have a staff of eight and a Board of 13, but we have made significant contributions to our industry – value-added agriculture, or agrivalue – thanks to a strong, shared vision and a respected pool of expertise. Each year our clients, partners and core competencies have grown. The critical mass we reached in 2003/2004 continues to build, and a growing number of companies and organizations are seeking our knowledge in their value-added ventures.

We also continue to build on our corporate achievements. As of March 31, 2005, AVAC is coaching a total of 140 active projects, including 23 new projects approved in 2004/2005. Our total investment in value-added agriculture in Alberta has reached an all-time high of \$32.9 million and has generated more than \$219 million of investment in Alberta projects. Although we did not reach our goals of \$35.1 million in aggregate funding and 44 aggregate projects in 2004/2005, we are still well on our way to reaching our long-term goals.

Our confidence is based not only on our past performance and results, but new funding and a new business plan. In 2004, Alberta Agriculture, Food and Rural Development announced \$24 million of funding for AVAC's future research and development investments and an additional \$10 million for our current investment activities. On March 31, 2005, our fiscal year ended with the approval of our Three-Year Strategic Business Plan. The plan identifies AVAC's directions, priorities and tactics to invest \$70 million in projects and programs to grow value-added innovation in Alberta and attract an additional \$300 million to agrivalue and agriculture research by March 2008. We will also help to attract and develop more than 100 highly qualified personnel to agrivalue ventures, and be a leading partner in Alberta's value-added economy.

As we work toward these achievements, we will remain true to our mission – to build the economic viability of Alberta's agrivalue and renewable resources ventures.

Since 1997, we have fostered overall industry growth and collaboration. We now have 91 partners engaged in the agrivalue commercialization bridge and 72 joint science and industry research projects. Our efforts to develop and launch collaborative organizations such as the Ag Funding Consortium and BioProducts Alberta are building industry-wide knowledge, expertise and profile as well as creating new opportunities for value-added ventures.

In closing, we would like to acknowledge and thank the many people who have contributed to AVAC's accomplishments and our industry's dynamic growth. Our board, staff and members steadfastly work as a team. Our growing network of industry partners and investors reflects the growing confidence and potential of value-added agriculture. New funding reflects the Province of Alberta's confidence in AVAC, and has bolstered our energy and enthusiasm. And finally, our clients' success is proof that success is both attainable and sustainable.

**Aaron Falkenberg**  
Chair, AVAC

**Keith Jones**  
President and CEO, AVAC

**I**n 2003/2004, AVAC achieved critical mass on many fronts: projects, clients, partners, and human capital. In 2004/2005, the company's eighth year of operations, we continued to foster the growth of value-added agriculture in Alberta. At the same time, our role, reputation and value continue to grow, so much so that AVAC has become "one of Canada's leading advocates in technology commercialization" and our expertise is increasingly sought in new ventures involving all types of renewable resources.

## AVAC's Measures of Success

### Goals

- Establish agrivalue commercialization bridge.
- Increase pre-commercial projects.
- Build long-term sustainability.
- Move clients towards commercial success.
- Increase financial and human capital attracted to agrivalue.
- Improve technology commercialization from research in agrivalue.

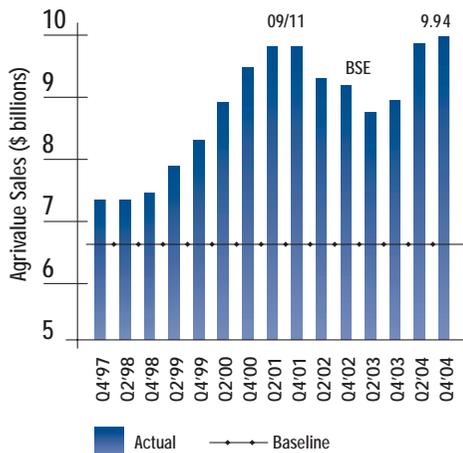
### Measures

	Baseline March 2004	Actual March 31, 2005	Target March 2005	Stretch March 2007
Aggregate Alberta agrivalue investment	\$144.3 million	<b>\$219.2 million</b>	\$175 million	\$300 million
Aggregate funds approved	\$31.3 million	<b>\$32.9 million</b>	\$35.1 million	\$60 million
Aggregate pre-commercial projects approved	33	<b>37</b>	44	65
Active projects being coached	108	<b>140</b>	132	160
Clients at or entering revenue stage	11	<b>18</b>	17	30
Partners in agrivalue bridge	53	<b>91</b>	82	102
Joint science and industry project	64	<b>72</b>	65	75

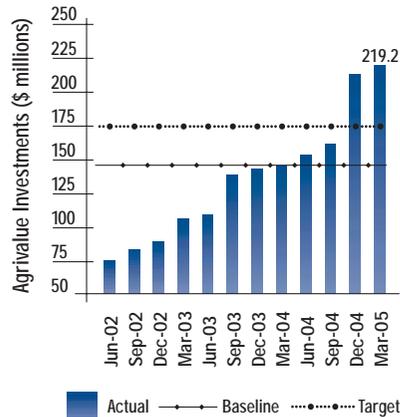
### Our highlights for the year include:

- Our total investment of \$32.9 million in Alberta agrivalue since inception has led to more than \$180 million of additional investment.
- Alberta Agriculture, Food and Rural Development announced \$24 million of new funding for AVAC's future research and development investments and an additional \$10 million for our current investment activities.
- We received 67 new proposals in 2004/2005: we approved 23 projects totalling \$4.72 million; are currently reviewing 22 proposals with an investment potential of \$11.1 million; and are coaching a number of applicants through the proposal process.
- Kinnikinnick Foods and Ceapro Technologies Inc. became the first two companies to receive "start-up" investments in our pilot program to support "Pillar Three" investment activities.

### Agrivalue Sales – Food and Beverage



### Aggregate Agrivalue Investment



- Our largest client investee, SemBioSys Genetics Inc., completed “Canada’s most successful biotech IPO financing of 2004.” (as cited by canadavc.com)
- Working with agriculture, forestry and alternative energy companies and organizations, we helped develop and launch BioProducts Alberta.
- Our organizational restructuring built sectoral expertise, aligned our strategic growth with our opportunities and added talented staff to the AVAC team.
- AVAC is increasingly recognized as a leading Canadian advocate in technology commercialization.

### Adding Value to Alberta

Following a Government of Alberta-sponsored study in 1996 on value-added agriculture, AVAC Ltd. was created in 1997. Since AVAC’s inception, its goal has been to help the province achieve \$20 billion in value-added agriculture economic activity.

Alberta’s new Lieutenant Governor Norman Kwong reiterated the Province’s interest in value-added agriculture in the March 2005 Alberta Speech from the Throne, and indicated the government’s intent to make the economy “more knowledge-based by adding value to primary resource industries.”

Initially in 1997, the majority of growth in value-added agriculture, or agrivalue, was expected to come from food and beverage sales. More recently, promising growth has come from the areas of nutraceuticals, bioplastics and bioenergy. The industry has also experienced its setbacks. The promising growth of agrivalue experienced up until 2000 and early 2001 was stalled in the fall of 2001 following the 9/11 terrorist attacks on the United States,

and was further set back by the discovery of BSE in an Alberta cow in May 2003 and the subsequent closing of Canada’s borders to beef exports. Overall food manufacturing sales growth, however, has recovered to 2001 levels and is currently growing at over 10 percent a year.

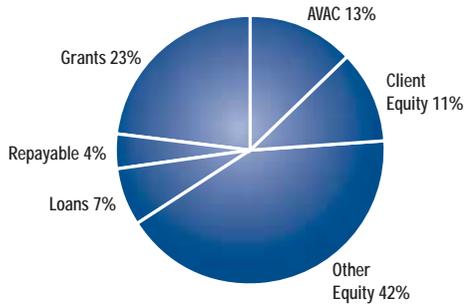
Value-added agriculture continues to grow and is increasingly interwoven into a larger, more encompassing value-added industry that uses renewable resources of every sort. This connects agriculture with forestry, fisheries and alternative energy, and opens a vast array of opportunities for entrepreneurs and for AVAC.

Alberta’s goal of generating \$20 billion of agrivalue activity by 2010 remains as ambitious today as it was eight years ago. AVAC Ltd. is encouraged by the province’s progress toward it – and, through its work, is dedicated to seeing Alberta strive for it.

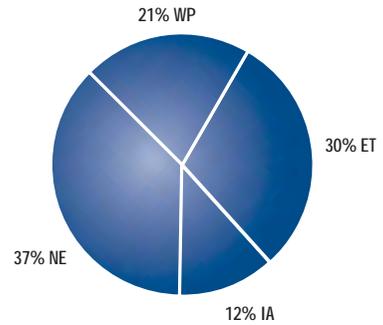
AVAC is structured to provide the value-added sector with highly accountable means of using public funding for venture development. The company’s corporate governance, policies and procedures, activities and reports are closely aligned with the corporate governance guidelines of the Conference Board of Canada. This structure gives AVAC decision-making autonomy which in turn contributes to the growth of private-sector and other industry-directed investment in venture development.

**AVAC is structured to provide the value-added sector with highly accountable means of using public funding for venture development.**

**\$\$ Aggregate Investment by Investor Type**



**\$\$ Approved by Focus Area**



ET = Enabling Technologies (30%)  
IA = BioProducts (12%)  
NE = New and Enhanced Foods (37%)  
WP = Wellness Products (21%)

### Leveraging Investments in Alberta Agrivalue

Since AVAC was formed in 1997, investment in Alberta agrivalue has grown steadily, generating interest across the country in AVAC's stimulation of technology commercialization.

AVAC participation in agrivalue has had a significant multiplier effect: for every \$1 it has invested, an additional \$5.66 has been attracted to Alberta agrivalue projects. Over the course of the company's history we have invested \$32.9 million, which has resulted in capital investments totalling \$219.2 million to Alberta agrivalue. As in past years, the majority of this funding (\$117.5 million) is from client and other equity investments and reflects the credible, business-based due diligence and investment decision-making process AVAC uses to evaluate and develop agrivalue projects with strong market potential.

This exceeded our target of \$175 million by \$44.2 million. In all, AVAC-backed projects attracted \$68 million in investment in the past year. This result reflects the growing success of our clients' financing activities and puts us closer to our three-year stretch target of \$300 million by March 2007.

During 2004/2005, AVAC approved funding of \$4.7 million for new projects and disbursed \$3.5 million. This brought our aggregate funding total to \$32.9 million, \$2.2 million short of our forecast aggregate total of \$35.1 million. The shortfall was primarily due to the closing of the University of Lethbridge Weselake and New Era Nutrition files.

### Funding for the Future

During the past year, Alberta Agriculture, Food and Rural Development Minister Doug Horner announced that AVAC will receive \$24 million for future research and development investments and an additional \$10 million for current investment activities.

AVAC is currently working with AAFRD to finalize an agreement for our receipt and stewardship of these funds. This funding gives AVAC the ability to further advance our agrivalue commercialization mandate, which, ultimately, mirrors the provincial goal to generate \$20 billion of agrivalue activity in Alberta by 2010. As well, this funding extends AVAC's operational mandate to 2012.

In addition, AVAC is exploring possible funding opportunities with other provincial and federal government partners. Such funding could see AVAC establish a renewable resource business unit and explore a "Pillar Four" business unit.

On March 30, 2005, the AVAC Strategic Business Plan was approved, and we are making progress on a number of tactics, including the planned opening of AVAC's new offices in Leduc in the fall of 2005. We are also contributing to strategic discussions among our partners in the Agricultural Funding Consortium to build and invest in world-class science and research capacity in Alberta. Working together, AAFRD, the Alberta Agricultural Research Institute (AARI), the Alberta Crop Industry Development Fund (ACIDF), the Alberta Livestock Industry Development Fund (ALIDF) and AVAC have advanced talks for the collaborative stewardship of \$72 million in new research and development financing.

**In all, AVAC-backed projects attracted \$68 million in investment in the past year.**

## AVAC is exploring possible funding opportunities with other provincial and federal government partners to establish a renewable resource business unit and explore a “Pillar Four” business unit.

### Supporting New Proposals and Projects

In the past year, we received 67 proposals seeking support from AVAC. We approved funding for 23 new projects totalling \$4.72 million, among them:

- SciMed Laboratories (\$700,000)
- Kinnikinnick Foods Inc. (\$2.5 million)
- Growing Alberta (\$35,000)
- BioAlberta Partnership Program (\$15,000)
- Kitchens of India (\$25,000)
- Ceapro Technology Inc. (\$362,250)
- Chinook Entrepreneur Challenge (\$24,000)
- CytoStore Inc. (\$25,000)

Since AVAC's formation in 1997, our team has received and reviewed more than 750 proposals, using an innovative due diligence and mentoring process. In all AVAC has approved funding of \$32.9 million to 166 early-stage projects.

### New “Pillar Three” Pilot Program

AVAC has identified five pillars in the value-added commercialization bridge and the diverse types of support and investment which companies need to cross that bridge and move toward economic viability. To support companies along the commercialization bridge, AVAC has developed a number of programs that offer investment funding and coaching. The most recent is its Pillar Three “Start-up” Stage Program which launched in 2004/2005 with investments in CTI and Kinnikinnick Foods Inc. These investments use a refined royalty method and have attracted additional sources of capital.

In the coming year, we are exploring development of a Pillar Four Program, an equity investment mechanism for co-investor funding and support.

### A Successful IPO

In May 2005, AVAC's largest investee, Calgary-based SemBioSys Genetics Inc., was named biotech company of the year by BIOTECANADA, in part for successfully completing an initial public offering of \$17.5 million on the Toronto Stock Exchange in December 2004. The BIOTECANADA award recognizes individuals and companies who have demonstrated significant accomplishments, exemplary leadership and commitment to Canada's biotech industry.

SemBioSys is a privately held biotechnology company focused on the development of high-value protein and oilbody-based products using its proprietary oilbody-based technology – the Stratosome™ Biologics System. The company was spun out of the University of Calgary in 1996, and its investors include Bay City Capital, Dow AgroSciences Canada Inc., Ventures West Management Inc., BDC Venture Capital, University Technologies International Inc., RBC Capital Partners and Maurice Moloney Ph.D., scientific founder and Chief Scientific Officer. In addition, SemBioSys has received repayable contributions of \$4.9 million from AVAC and \$5.5 million from Technology Partnerships Canada, an agency of Industry Canada.

### Showcasing Alberta's Bioproducts

Originally formed in 2003, BioProducts Alberta was formally established in April 2005, as a not-for-profit corporation focused on developing the province's bioproducts and economy. Bioproducts use trees, crops, and agricultural and forestry wastes to make materials, fuels, chemicals and electricity.

Market interest and scientific advances have increased the potential for bioproducts to generate economic opportunities for rural Alberta, develop and expand Alberta's renewable resource industries, and help the province meet environmental challenges.

AVAC's President and CEO Keith Jones is the interim chair of BioProducts Alberta; AVAC was a strong proponent of the organization, both during its incubation and now that its corporate structure has been formalized.

BioProducts Alberta has created and will continue to create cross-industrial partnerships and opportunities that promote collaboration in bioproducts research and technology commercialization across industries like agriculture, forestry, alternative energy, and manufacturing. Start-up funding for the organization has been provided by Alberta Innovation and Science, through the Alberta Agricultural Research Institute, along with WD and AAFRD. AVAC's support of bioproducts in 2004/2005 also included:

- \$15,000 of funding for the BioAlberta Partnership Program.
- Joining BioAlberta and the Alberta/California Venture Channel during Biotech Week in September 2004 to present the Biofinance Excelsior. This joint initiative was supported by Gowlings, Ernst & Young, CTI and EEDC and gave four qualifying ag-biotech and health biotech companies an opportunity to formally pitch and test their business "cases" – their core business concepts and overall strategies – with a panel of experts and venture capitalists. The presenting companies were: SciMed Laboratories; BioNeutra Inc.; ECB Lethbridge Co-Gen Ltd. and QRS Phenotyping Inc.
- Co-hosting the second annual Alberta BioProducts Showcase in Nisku, Alberta with BioAlberta in January. The event focused on agricultural fibres and biomass energy. More than 80 people attended the showcase, which promotes Alberta's significant and emerging opportunities in products derived from renewable resources.

AVAC's support of bioproducts-related events and initiatives translates into shared knowledge and "community building," giving individuals and organizations more opportunities to understand the technology and potential of this growing industry.

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**AVAC's support of bioproducts-related events and initiatives translates into shared knowledge and "community building."**

### **Leading Technology Commercialization**

For years, researchers and entrepreneurs have faced substantial "gaps" in their efforts to commercialize technology and create economic viability. Few have been able to close those gaps, and as a result, far too many products and companies fail.

In June 2004, AVAC stepped forward to help identify gaps and potential solutions for supporting developing companies in technology commercialization. We organized and hosted the Financing Technology Commercialization symposium to find ways to bridge the gap between their ideas and their abilities to generate sustainable profits in the marketplace.

More than 40 people from across the country attended the symposium, including presenters Dr. Michael Raymont of the National Research Council, Dr. Murray McLaughlin of Foragen Technology Ventures and Oryssia Lennie of Western Economic Diversification.

During our symposium and at a number of subsequent provincial and federal forums, AVAC has identified and begun to champion key challenges in order for the country to create a critical mass of ideas, expertise and funding. AVAC's efforts are focused on ways to increase cooperation while respecting competition, and developing management expertise, marketing skills and financing options for start-up companies to move them from concept to success.

In the past year, AVAC has become Canada's leading advocate in technology commercialization, bringing together a growing number of individuals and organizations dedicated to achieving greater success in the global marketplace.

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**AVAC has identified and begun to champion key challenges in order for the country to create a critical mass of ideas, expertise and funding in value-added ventures.**

# Management Comments on Financial Performance

# AV05

**A** VAC's financial statements for the year ending March 31, 2005, illustrate the Company's increasing volume and quality of early-stage value-added investments, and its prudent financial management. The Company disbursed \$3.53 million directly to clients over the past financial year, an increase of 35 per cent over the previous year (2004 – \$2.61 million). Aggregate project approvals and aggregate contracted obligations both attained new highs at \$32.9 million (2004 – \$31.3 million) and \$29.0 million (2004 – \$22.2 million) respectively.

AVAC's Investment Managers have focused successfully on elevating our clients' focus on outcomes, such that the vast majority of our approved investments are contracted within three months of investment approval. Client disbursements continue on a pace consistent with their achievement of reporting and outcome milestones, and we expect an acceleration of disbursements to clients in the coming year based on significant project outcomes such as the completion of the Agrivalue Business Processing Incubator at Leduc.

The increase in project approval and contracting has increased the net assets internally restricted for future contracted obligations from \$8.8 million to \$12.1 million. Assuming that the \$3.9 million of approved investments which have not yet been contracted will be contracted shortly, as of March 31, 2005, AVAC had approximately \$15 million in unrestricted resources available for future project investment approvals. We were gratified and honoured by Alberta Agriculture Minister Doug Horner's letter confirming that the Company will be receiving an additional \$10 million to support our value-added agriculture investment activities to the year 2010. We have fully utilized the \$9.94 million in matching funding contributed by Agriculture and Agri-Food Canada towards our value-added agriculture objectives, and thank them for their partnership in helping us achieve critical mass. While AAFC has advised that no further investment in AVAC's activities is likely under the current federal Agricultural Policy Framework, we are exploring co-investment options with other potential federal partners.

AVAC continues to be in a strong asset position thanks to positive investment returns and prudent fiscal management. As AVAC's clients begin to attain commercial success in the marketplace, AVAC's royalty revenue is growing dramatically. We are pleased to report royalty

revenues of \$380,292 for the year, compared to \$53,288 in 2004. We expect royalty revenues to continue to increase in the new financial year.

TD Waterhouse Private Investment Counsel Inc. has continued to manage AVAC's asset portfolio on the Company's behalf utilizing the investment policy direction provided by AVAC Ltd. As shown in Note 3 of the financial statements, at year end 20.1% of the portfolio (on a cost basis) was held in Canadian and global equities, with the remainder invested in fixed income and cash instruments. The portfolio achieved an annualized return of 5.83% over the year, generating investment income of \$1.77 million (2004 – \$1.75 million). The portfolio's return compares reasonably with the following representative capital market total return indices over the same period as reported by TD Waterhouse:

Scotia Capital 91 Day T-Bills	2.20%
Scotia Capital Bond Universe	5.02%
S&P/TSE Composite Index	13.93%

Once again, AVAC's total general and administrative overhead expenses of \$1.58 million (2004 – \$1.46 million) were more than offset by its investment income, and operating expenses were significantly below budget for the year. The Company anticipates increasing its core staff through the new operating year to implement the revised strategic direction established in March 2005. As well, we will create a new Ag Research Business Unit and open an office in Leduc.

AVAC's goals, measures and targets are described in AVAC's Three-Year Strategic Business Plan of March 2005, and progress towards these targets is published on the AVAC Website at [www.avacltd.com](http://www.avacltd.com) following their quarterly review and approval by the AVAC Board.

# Auditors' Report *to the Members*

# AV05

**W**e have audited the statement of financial position of AVAC Ltd. as at March 31, 2005, and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

**KPMG LLP**

Chartered Accountants

Calgary, Canada

June 30, 2005

# Financial *Statements*

## Statement of Financial Position

March 31, 2005, with comparative figures for 2004

	2005	2004
<b>Assets</b>		
<b>Current assets:</b>		
Cash	\$ 429,103	\$ 84,093
Accounts receivable (note 2)	873,231	1,960,152
Prepaid expenses and deposits	5,910	5,910
Investments (note 3)	29,888,818	31,342,938
Total current assets	31,197,062	33,393,093
Capital assets (note 4)	69,494	198,263
	<b>\$ 31,266,556</b>	<b>\$ 33,591,356</b>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 172,442	\$ 174,082
<b>Net assets:</b>		
Invested in capital assets	69,494	198,263
Net assets internally restricted for future contracted obligations (note 5)	12,141,581	8,824,731
Unrestricted	18,883,039	24,394,280
Total net assets	31,094,114	33,417,274
Commitment (note 9)		
	<b>\$ 31,266,556</b>	<b>\$ 33,591,356</b>

See accompanying notes to financial statements.

On behalf of the Board:

  
Aaron Falkenberg  
Director

  
Mary Arnold  
Director

## Statement of Operations

Year ended March 31, 2005, with comparative figures for 2004

	2005	2004
<b>Revenue:</b>		
Federal contributions	\$ 810,244	\$ 1,853,755
Royalty income	380,292	53,288
Investment income	1,774,569	1,754,841
Membership	5,700	5,300
Other revenue (note 7)	81,735	-
Gain on disposal of capital assets	2,412	-
	<b>3,054,952</b>	<b>3,667,184</b>
<b>Expenditures:</b>		
General and administrative	1,576,065	1,459,595
Projects (note 6)	3,802,047	2,999,851
	<b>5,378,112</b>	<b>4,459,446</b>
<b>Excess of expenditures over revenue</b>	<b>\$ (2,323,160)</b>	<b>\$ (792,262)</b>

See accompanying notes to the financial statements.

## Statement of Changes in Net Assets

Year ended March 31, 2005, with comparative figures for 2004

	Capital assets	Unrestricted	Net assets internally restricted for future contracted obligations	2005	2004
Balance, beginning of year	\$ 198,263	\$ 24,394,280	\$ 8,824,731	\$ 33,417,274	\$ 34,209,536
Excess of expenditures over revenue	–	(2,323,160)	–	(2,323,160)	(792,262)
Depreciation of capital assets	(145,606)	–	–	(145,606)	–
Distributions to project applicants	–	–	(3,525,781)	(3,525,781)	–
Net adjustments to unrestricted amounts	–	3,671,387	–	3,671,387	–
Additions to capital assets	16,837	(16,837)	–	–	–
Additional projects contracted	–	(6,842,631)	6,842,631	–	–
Balance, end of year	\$ 69,494	\$ 18,883,039	\$ 12,141,581	\$ 31,094,114	\$ 33,417,274

See accompanying notes to financial statements.

## Statement of Cash Flows

Year ended March 31, 2005, with comparative figures for 2004

	2005	2004
<b>Cash provided by (used for):</b>		
<b>Operating activities:</b>		
Excess of expenditures over revenue	\$ (2,323,160)	\$ (792,262)
Items not involving cash:		
Depreciation of capital assets	145,606	152,329
Investment income reinvested	(1,755,880)	(1,754,851)
Change in non-cash working capital	1,085,281	580,122
	(2,848,153)	(1,814,662)
<b>Financing and investing activities:</b>		
Capital assets acquired	(16,837)	(106,941)
Investment fund proceeds	3,210,000	1,666,615
	3,193,163	1,559,674
<b>Increase (decrease) in cash</b>	<b>345,010</b>	<b>(254,988)</b>
<b>Cash, beginning of year</b>	<b>84,093</b>	<b>339,081</b>
<b>Cash, end of year</b>	<b>\$ 429,103</b>	<b>\$ 84,093</b>

See accompanying notes to financial statements.

# Notes to the Financial *Statements*

Year ended March 31, 2005, with comparative figures for 2004

AVAC Ltd. ("AVAC" or the "Company") received funding of \$34,808,758 (\$34,944,000 less administrative costs of \$135,242) from the Alberta Ministry of Agriculture, Food and Rural Development (the "Ministry") on March 18, 1997. Upon expiry of the funding agreement on March 31, 2007, AVAC may be required to repay to the Ministry all or a portion of the original funding (together with any income earned from investment thereof) that has not been expended or committed to be expended. AVAC has granted the Province of Alberta a security interest in all of its property. On March 31, 2005, the province of Alberta confirmed its intent to provide an additional \$10 million of funding to AVAC to 2010.

In accordance with the terms of a Companion Agreement (the "Companion Agreement") which expired March 31, 2003 and was extended by way of agreement to March 31, 2006, AVAC was to receive contributions on a matching basis from the Government of Canada up to a cumulative amount of \$9,944,000. These matching contributions were \$810,244 for the year ended March 31, 2005, and amounted to \$9,944,000 on a cumulative basis.

AVAC has received favourable income tax rulings from Canada Customs and Revenue Agency concerning the Company's status as a not-for-profit organization.

## 1. Significant accounting policies:

The financial statements of AVAC have been prepared by management in accordance with Canadian generally accepted accounting principles for not-for-profit organizations. A precise determination of many assets and liabilities is dependent upon future events and consequently the preparation of periodic financial statements necessarily involves the use of estimates and approximations. Those estimates also affect the disclosure of contingencies at the date of financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

### (a) Revenue and expenditure recognition:

The Company follows the deferral method of accounting for contributions. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Project expenditures are expensed as incurred. Some expenditures may result in a future return to the Company in the form of a contingent success-based royalty; such returns are recorded as income in the period received.

### (b) Investment fund:

Investment purchases are recorded at cost. At year end, the total investment fund is reported at the lower of cost and market value.

### (c) Capital assets:

Purchased capital assets are recorded at cost. Repairs and maintenance are charged to expense. Improvements, which extend the estimated life of an asset, are capitalized. When a capital asset no longer contributes to the Company's ability to provide services, its carrying amount is written down to its residual value.

Capital assets are depreciated on a straight-line basis using the following annual rates:

Computer equipment	30%
Computer software	50%
Office equipment	10%
Furniture and fixtures	10%
Leasehold improvements	Over the term of the lease

## 2. Accounts receivable:

Included in accounts receivable are Government of Canada contributions of \$813,792 (2004 – \$1,839,441) and GST receivable of \$59,439 (2004 – \$120,711).

## 3. Investments:

Investments consist of the following portfolio:

	2005 Cost	2005 Market	2004 Cost	2004 Market
Cash and cash equivalents	\$ 4,316,136	\$ 4,308,977	\$ 4,624,388	\$ 4,620,956
<b>Medium term investment fund:</b>				
Federal government bonds	7,846,917	7,843,883	9,922,263	10,147,753
Provincial government bonds	9,683,948	9,843,100	6,531,130	6,658,413
Other bonds and accrued interest	2,046,745	2,076,538	3,777,106	3,885,436
Canadian equities	4,060,011	6,403,781	4,338,252	6,504,804
Global equities	1,935,061	1,604,043	2,149,799	1,709,629
	25,572,682	27,771,345	26,718,550	28,906,035
<b>Total Investment Fund</b>	<b>\$29,888,818</b>	<b>\$32,080,322</b>	<b>\$31,342,938</b>	<b>\$33,526,991</b>

**3. Investments (continued):**

The Federal Government bonds mature between September 1, 2006 and December 15, 2008 and bear interest at rates ranging from 4.1% to 5.75%. The Provincial Government bonds mature between June 9, 2008 and June 18, 2014 and bear interest at rates ranging from 4.75% to 6.2%. Investment income has been recorded net of fees paid for portfolio management which amounted to \$83,868 (2004 – \$85,539).

**4. Capital assets:**

			2005	2004
	Cost	Accumulated depreciation	Net book value	Net book value
Computer equipment	\$145,131	\$118,527	\$26,604	\$ 38,963
Computer software	305,325	299,203	6,122	117,508
Office equipment	38,618	18,866	19,752	21,334
Furniture and fixtures	39,691	23,087	16,604	19,907
Leasehold improvements	8,757	8,345	412	551
	\$537,522	\$468,028	\$69,494	\$198,263

**5. Net assets internally restricted for future contracted obligations:**

AVAC Ltd. invests in qualifying agrivalue pre-commercial, research and strategic projects based on a progressive series of steps including evaluation and mentoring of investment proposals; approval of project investment based on specific milestones; contracted obligations to disburse funds; and disbursement of funds based on achievement of each milestone. During the year, \$3,525,781 was distributed directly to project applicants.

AVAC has contracted to advance a total of \$29,036,571 of which \$16,894,990 has been advanced to March 31, 2005, with the remaining balance of \$12,141,581 to be advanced in future periods. This remaining advance is contingent on specified milestones being reached as contracted. The financial statements reflect an internal restriction of net assets for the \$12,141,581 for this purpose.

The table below discloses the aggregate level of AVAC approvals, project obligations and disbursements to date:

Aggregate project approval	\$ 32,904,207
Aggregate contracted obligations	\$ 29,036,571
Aggregate disbursements	\$ 16,894,990
Future contracted obligations	\$ 12,141,581

During the year, amounts were transferred from unrestricted net assets to net assets internally restricted for future contracted obligations of \$6,842,631. These transfers occurred as projects were approved during the year. Approximately \$19,000,000 of the aggregate project approvals of \$32,904,207 is committed to projects which may result in a future return to the Company in the form of a contingent success-based royalty; the remainder represents approved investments in research, strategic or knowledge projects.

**6. Project expenditures:**

Project expenditures consist of project disbursements direct to investee clients, and project expenses which include allocated salary and benefits, out of pocket expenditures for external consultants and other expenses directly related to projects. Project disbursements are made on the basis of satisfaction of milestone commitments on approved projects. In 2005, AVAC made project disbursements of \$3,525,781 (2004 – \$2,607,677) on total aggregate project approvals of \$32,904,207 (2004 – \$31,301,251). Project expenses in 2005 of \$276,266 (2004 – \$392,174) are associated with projects which have been reviewed, projects with pending approvals, and approved projects.

**7. Other revenue:**

During the year AVAC received \$81,735 as compensation for investment in a project. After an initial disbursement of \$200,000 in 2002 the project changed focus and was unable to meet any future milestones. The project found new investors who compensated AVAC \$81,735 to release any interest remaining in the project.

**8. Financial instruments:**

Financial instruments of AVAC include cash, accounts receivable, investments, and accounts payable and accrued liabilities.

The fair values of financial instruments excluding investments approximate their carrying value due to the short-term nature of these instruments. The fair value of investments is disclosed in note 3.

AVAC's accounts receivable are due from the federal government and therefore do not carry increased credit risk.

**9. Commitment:**

At March 31, 2005 AVAC is committed to an office lease with minimum monthly lease payments of approximately \$4,000 from April 1, 2005 to February 28, 2007.

**ENABLING TECHNOLOGIES**

Client	Funding Approved	Disbursed to Date
Agriculture and Food Council – Global Value Chain Conference	\$ 5,000	\$ –
Alberta California Venture Channel	\$ 50,000	\$ 50,000
ASTech Awards 2004	\$ 20,500	\$ 20,500
Chinook Entrepreneur Challenge	\$ 24,000	\$ –
EDA Alberta	\$ 25,000	\$ 17,500
Inno-centre Alberta	\$ 500,000	\$ 400,000
Olds College Centre for Innovation – Research Capacity	\$ 2,500,000	\$ 1,399,397
SciMed Laboratories Inc.	\$ 996,813	\$ 562,000
SemBioSys Genetics Inc. – Pilot Scale Production of Protein A	\$ 2,500,000	\$ 1,379,000
University of Alberta – Commercial Supercritical Fluid Extraction of Canola	\$ 70,000	\$ 63,000
University of Alberta – Research Capacity	\$ 1,941,917	\$ 1,389,556
University of Alberta – Saskatoon Fruit Flavour & Quality	\$ 100,000	\$ 32,934
University of Alberta – Seminar Series	\$ 10,000	\$ –
University of Alberta – Supercritical Fluid Extraction	\$ 66,125	\$ 66,125

**INDUSTRIAL APPLICATIONS (BioProducts)**

Client	Funding Approved	Disbursed to Date
AFNS – Biopolymers from Oilseeds Research Network	\$ 500,000	\$ 125,000
Agri-Boost Inc.	\$ 25,000	\$ 16,667
BioAlberta Partnership Program	\$ 15,000	\$ 15,000
BioEnergy Opportunities for Alberta	\$ 10,000	\$ 10,000
Canadian Fibretech Ltd.	\$ 313,849	\$ 313,849
Cevena Bioproducts Inc.	\$ 1,000,000	\$ 1,000,000
CytoStore Inc.	\$ 25,000	\$ 16,750
G.S. Technology Corporation	\$ 136,150	\$ 78,000
Global Forage Alliance	\$ 20,490	\$ 20,490
Kolk Farms Ltd.	\$ 25,000	\$ 16,750
NAS – Natural Animal Supplements Corporation	\$ 20,998	\$ 20,998
Olds Ag-Tech Industries Ltd.	\$ 25,000	\$ 25,000
Prairie Tanners Inc. (formerly P & R Trading)	\$ 227,058	\$ 212,058
Rebus Corporation	\$ 2,000,000	\$ 700,000
Red Deer County Biogas Project	\$ 59,400	\$ 6,000
THECIS – InnoWest 2004 Conference	\$ 6,000	\$ 6,000
University of Alberta – Beta Glucan Depleted Flour	\$ 82,750	\$ 55,166
University of Alberta – Importance of Beta Glucans to the Immune Development in the Weaned Piglet	\$ 38,978	\$ 31,182

**NEW AND ENHANCED FOOD PRODUCTS**

Client	Funding Approved	Disbursed to Date
AAFRD – Home Meal Replacement Technology & Marketing Seminar	\$ 700	\$ 700
AFPA Agrivalue Seminar Series	\$ 3,750	\$ 400
Agrivalue Food Processing Incubator Facility	\$ 5,000,000	\$ –
Agrivalue Marketing Competition	\$ 15,000	\$ 10,000
Alberta Barley Commission	\$ 6,100	\$ –
Alberta Beef Company	\$ 15,000	\$ 15,000
Alheim Corporation – Idea Builder	\$ 21,225	\$ 21,225
Alheim Corporation – Pre-Commercial	\$ 130,350	\$ 130,350

Note: Grey shading denotes clients with an investment approved in 2004/2005.

# Active *Projects*

## NEW AND ENHANCED FOOD PRODUCTS

Client	Funding Approved	Disbursed to Date
All in Good Taste Inc.	\$ 25,000	\$ 16,750
Ceresan (Hole Ventures Corporation)	\$ 25,000	\$ 16,750
EcoAg Initiatives	\$ 25,000	\$ 25,000
Edelweiss Soft Cheese Manufacture Ltd.	\$ 58,500	\$ 58,500
Going Organic Network	\$ 2,500	\$ 2,500
Growing Alberta	\$ 175,000	\$ 175,000
Kinnikinnick Foods Inc. – Pre-Commercial	\$ 232,079	\$ 222,079
Kinnikinnick Foods Inc. – Start-up	\$ 2,500,000	\$ –
Kitchens of India	\$ 25,000	\$ 16,750
Kool Food Inc.	\$ 25,000	\$ 16,750
KSL Foods Inc.	\$ 25,000	\$ 16,750
Lakeview Bakery	\$ 25,000	\$ 25,000
Malay King – Idea Builder	\$ 24,000	\$ 24,000
Malay King – Pre-Commercial	\$ 338,500	\$ 122,500
Nutris Inc.	\$ 25,000	\$ 16,750
Of the Essence Organic Farms	\$ 24,582	\$ 24,582
Orchard Mist Products Ltd.	\$ 25,000	\$ 16,750
Prairie Natural Processing Inc.	\$ 129,620	\$ 129,620
Schroeder Milling Ltd.	\$ 25,000	\$ 16,750
Tapeko Enterprises Inc.	\$ 18,055	\$ 18,055
The Innovators Global Network – International Food Symposium 2004	\$ 5,000	\$ –
Tian Fine Foods Inc.	\$ 25,000	\$ 16,750
TLC Holdings Inc.	\$ 25,000	\$ 16,750
University of Alberta – Development of Prebiotics, Probiotics and Synbiotics	\$ 103,500	\$ –
University of Lethbridge – Edible Oils	\$ 1,200,000	\$ 235,000
Urban Wafer Co. Inc. – Packaging Wafer Products	\$ 25,000	\$ 25,000
Urban Wafer Co. Inc. (formerly MMICODO Management Ltd.) – Expansion	\$ 148,000	\$ 148,000
VitalyTeas Ltd.	\$ 25,000	\$ 16,750
Wheatland Select Organic Turkey Ltd.	\$ 107,800	\$ 80,800

## WELLNESS PRODUCTS

Client	Funding Approved	Disbursed to Date
AAFRD – Rosemary Nutraceutical Industry	\$ 32,500	\$ 29,255
AB BioPharma Inc.	\$ 1,250,000	\$ 1,125,000
BC Functional Foods Conference	\$ 3,455	\$ 3,455
BioLipids Inc.	\$ 25,000	\$ 16,750
CanBiocin Inc.	\$ 250,000	\$ 250,000
Ceapro Inc. – Idea Builder	\$ 19,750	\$ 19,750
Ceapro Inc. – Pre-Commercial	\$ 414,882	\$ 314,882
Ceapro Technology Inc. – Pre-Commercial	\$ 362,250	\$ 362,250
Ceapro Technology Inc. – Start-up	\$ 800,000	\$ –
Cevena Bioproducts Inc.	\$ 1,000,000	\$ 900,000
CV Technologies Inc.	\$ 525,000	\$ 508,333
Natural Farmworks Ltd.	\$ 200,000	\$ 200,000
Qeva Velvet Products Corp.	\$ 40,000	\$ 40,000
SemBioSys Genetics Inc. – Transgenic Production of Antibodies in Plants	\$ 2,384,000	\$ 2,200,000
University of Alberta – Fenugreek	\$ 70,000	\$ 63,000
University of Lethbridge – Disease-Fighting Nutraceuticals	\$ 160,000	\$ 80,000

Note: Grey shading denotes clients with an investment approved in 2004/2005.

AVAC's Board of Directors are independent outside directors elected from and by the Corporation's membership. The Board's role is to guide and monitor the company. Board members maintain their independence while working with AVAC management, a primary principle for successful corporate governance. By providing a disciplined approach to business concerns, AVAC's corporate governance practices ensure the corporation fulfills its mandate within prudent risk management parameters. The Board receives and approves a Statement of Compliance each quarter from the President and CEO.

A Board Manual is used to orient new Board members, as well as to provide a reference for existing members. The Board's code of conduct is acknowledged by each Board member in writing and reviewed annually. Each Board member completes an annual Board Performance Evaluation Questionnaire.

All Board Committees are proactive in keeping abreast of new business practices and the responsibilities required of them. Their due diligence processes have improved controls and enhanced the Board's monitoring of corporate results.

The Board of Directors is kept informed of AVAC's operations through regularly scheduled meetings of the Board and its committees, and through reports, analysis and discussions with management. The Board also meets to review and establish AVAC's strategic direction. During the fiscal year 2004/2005, the Board met seven times (at five Board meetings, an annual general meeting and one strategic planning meeting) and participated in four member events.

#### REMUNERATION OF DIRECTORS

A retainer is paid to all regular directors for their services as directors of the Corporation. An additional retainer is paid to Board and committee chairs. Directors (other than ex-officio directors) are compensated per diem for attendance at Board or committee meetings, or while otherwise engaged in AVAC business at the request of the Corporation.

Board compensation is reviewed annually by the audit committee and approved by the membership at the annual general meeting. The Board chair's compensation and out-of-pocket expenses are reviewed and approved by the chair of the Governance and Compensation Committee;

directors' expenses are reviewed and approved by the Board chair.

The following summarizes the compensation paid to all directors for the fiscal year ending March 31, 2005.

#### Director Compensation

Director Retainer (per year)	\$ 5,000 <sup>1</sup>
Board Chair Retainer (per year)	\$ 14,400 <sup>2</sup>
Committee Chair Fee (per year)	\$ 2,000
Meeting Fee Attendance	\$ 500 per full day, \$ 250 for half day
Conference Call Meeting Fee	\$ 250

#### Out-of-pocket Expenses

<sup>(1)</sup> Directors are compensated for travel to meetings held outside their normal place of residence at \$125 for up to four hours and \$250 for more than four hours.

<sup>(2)</sup> The Board Chair retainer fee includes compensation for Chair duties. The Chair receives Board meeting fees and the Director retainer. The Chair also receives a \$500 per diem or part thereof while engaged in AVAC business.

#### COMMITTEES OF THE BOARD

The Board's three standing committees perform certain advisory functions, make recommendations and report to the Board as a whole. Committee members are appointed annually, following the annual general meeting of members, on the recommendation of the Corporate Governance, Compensation and Nomination Committee.

#### Corporate Governance, Compensation and Nomination Committee

Committee members are: Bern Kotelko (chair), Ted Bosse, Bob Splane and Aaron Falkenberg. The committee met three times in 2004/2005.

#### Audit Committee

Committee members are Mary Arnold (chair), Tom Droog, Ed Knash and Neal Oberg. The committee met three times during 2004/2005.

#### Investment Committee

Committee members are Bob Splane (chair), Sandy Slator, Neal Oberg and Aaron Falkenberg. The committee met seven times in 2004/2005.

## Board Members

*AVAC is supported by its Board of Directors, who guide AVAC's strategic direction and, in many instances, assist in developing and successfully executing specific initiatives and programs. Their expertise and wide-ranging experience contributes to AVAC's ability to positively influence and develop value-added industry in Alberta.*



Aaron Falkenberg  
Board Chair

Mary Arnold

Ted Bosse

Tom Droog

L.E. (Ed) Knash



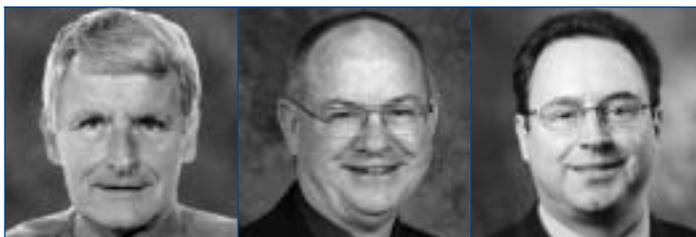
Bern Kotelko

Neal Oberg

Sandy Slator

Bob Splane

Rory Campbell  
(ex-officio)



Ken McCready  
(ex-officio)

Bob Fessenden  
(ex-officio)

Brian Rhiness  
(ex-officio)

AVAC benefits tremendously from the strategic perspectives shared by its four ex-officio directors at meetings of the Board:

**Brian Rhiness**, Assistant Deputy Minister  
Alberta Agriculture, Food and Rural Development

**Rory Campbell**, Deputy Minister  
Alberta Economic Development

**Bob Fessenden**, Deputy Minister  
Alberta Innovation and Science

**Ken McCready**, Regional Director  
Market and Industry Services,  
Agriculture and Agri-Food Canada

## Staff Members

In 2004/2005, AVAC's Investment Team was reorganized to focus on specific sectors:

- Mike Leslie leads AVAC's wellness products focus area
- Dale Clark leads AVAC's bioproducts focus area
- Mark Carlson recently joined AVAC as the Investment Manager for enabling technologies
- President and CEO Keith Jones oversees strategic investments, while leading the management team

AVAC will soon add two Investment Managers to further increase the Corporation's capacity.

Ross Bricker, Vice-President of Investment, is leading our efforts to refine our investment and assessment processes and to build our new pillars.

The AVAC team includes Lorna Sexsmith, Corporate Secretary and Office Manager; Nikki Barnes, Contracts Administrator; and Nicole Wozniczka, Administrative Assistant, who joined the company in 2004.

Our staff and Board of Directors work closely, and their combined knowledge, expertise and advice are invaluable in developing new value-added projects and companies for our clients and partners.



Keith Jones  
President and CEO

Nikki Barnes  
Contracts Administrator

Ross Bricker  
Vice-President, Investment

Mark Carlson  
Investment Manager

Dale Clark  
Investment Manager



Mike Leslie  
Investment Manager

Lorna Sexsmith  
Corporate Secretary

Nicole Wozniczka  
Administrative Assistant

Alberta



Agriculture and  
Agri-Food Canada

Agriculture et  
Agroalimentaire Canada

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